

## Message Text

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ORIGIN NEA-07

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TREAS:LATLAS

D:RPOATS

NESA/ME(AID) - J ROBERTS (SUBST)

S/S-O:DLMACK

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FM SECSTATE WASHDC

TO AMEMBASSY CAIRO

C O N F I D E N T I A L STATE 180076

LIMDIS

E.O. 11652: GDS

TAGS: EAID, EG

SUBJECT: EGYPT'S FINANCIAL GAP

REF: (A) CAIRO 9361 (B) STATE 19593 (C) CAIRO 9350

1. APPRECIATE EXCELLENT REFTEL A ON DEBT BURDEN PROBLEM. WE ARE STILL SOMEWHAT CONFUSED ON VARIOUS SETS OF PROJECTIONS BEING USED ON EGYPT'S FINANCING GAP FOR THIS CALENDAR YEAR. THE FOLLOWING TABLES THROUGH THE CURRENT ACCOUNT DEFICIT LINE PROVIDE THREE DIFFERENT PROJECTIONS IN BILLIONS OF DOLLARS. EVEN THROUGH THAT LINE WE NOTE VARIOUS DISCREPANCIES. THE FIRST COLUMN IS THE USAID/IBRD PROJECTIONS. THE SECOND COLUMN IS THE IMF TABLE PROVIDED US EARLIER THIS YEAR (REFTEL B). THE THIRD TABLE WAS THE LATEST IMF TABLE PROVIDED AT IMF DONOR BRIEFING MEETING IN

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JUNE AND WAS PREDICATED ON EGYPT ADOPTING SOME EXCHANGE

RATE AND OTHER AUSTERITY MEASURES RESULTING IN SHARP DECLINE IN IMPORTS. HOWEVER, WE ARE NOT SURE IF THE LOWERED IMPORT PROJECTION IS STILL VALID. GUNTER ALSO BELIEVES THE GOE IS DRAWING ON INVENTORIES ACCUMULATED DURING 1975. WE HOPE EMBASSY CAN GO OVER PROJECTIONS WITH EGYPTIANS AND DICKEY.

## 2. THREE VIEWS EGYPT'S FINANCING GAP. (BILLION DOLLARS)

A. EXPORTS	1.8	2.2	2.0
B. IMPORTS	-4.9	-5.6	-4.6
C. NET TRADE	-3.0	-3.4	-2.6
D. NET SERVICE	0.5	0.8	0.8
E. CURRENT ACCT DEFICIT	-2.5	-2.6	-1.8
F. GROSS MEDIUM AND LONG TERM PAYMENTS DUE AND SUPPLIERS CREDITS	-0.7	-0.65	-0.57
G. L/C INITIATION	-0.3	-	-
OVERALL GAP	-3.5	-3.3	-2.4
H. ARAB LOANS	-	1.0	0.42
I. WESTERN LOANS AND SUPPLIERS CREDITS	-	1.1	1.1
J. GOVERNMENT GRANTS (KHARTOUM AND SAUDI)	-	-	0.46
K. UTILIZATION ARAB AID	1.0	-	-
L. UTILIZATION US AID	0.5	-	-
M. IMF CREDIT	0.1	-	0.2
N. CHANGE RESERVE	0	0	-0.1
O. ARREARAGES AND CHANGE SHORT TERM DEBT	0	0	-0.614
P. REMAINING GAP	-2.0	-1.2	-0.77

REMARKS: LINES H THROUGH P SHOW SOME DIFFERENCES IN IDENTIFICATION DUE TO CATEGORY IDENTIFICATION. WE GROUPED ALL ARAB MONIES IN LINE K WHILE IMF-A TABLE SHOWS ALL IN LINE H, AND IMF-B TABLE GROUPS THEM IN H AND J LINES. LINES L AND M ARE ONLY NON-ARAB LINES IN OUR TABLE AS WE ARE NOT SURE SPECIFICALLY WHAT NON-ARAB AID BESIDES U.S. ASSISTANCE GOE IS USING THIS YEAR. IMF-A AND IMF-B PRO-CONFIDENTIAL

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JECTIONS SHOW SUBSTANTIAL WESTERN LOANS AND SUPPLIERS CREDITS WHICH INCLUDE USAID AND PL-480 MONIES, AS WELL AS SOME OECD COUNTRY MONIES AND IBRD FUNDINGS. WE HAVE NO FEEL FOR THE VALIDITY OF THESE ESTIMATES. LINE O FOR IMF-B SHOWS -.512 SHORT TERM DEBT NET REPAYMENT AND .102 BANK ARREARS REPAYMENT.

## 3. BELOW THE CURRENT ACCOUNT LINE WE HAVE MORE DISCREP-

ANCIES. GROSS MEDIUM AND LONG TERM DEBT REPAYMENTS DIFFER. LATEST IMF FIGURES SHOW 256 MILLION DOLLARS WESTERN MEDIUM AND LONG TERM LOAN REPAYMENTS DUE AND 320 MILLION DOLLARS SUPPLIERS CREDIT REPAYMENTS DUE FOR A TOTAL OF 576 MILLION DOLLARS. EMBASSY INFO IN REFTEL A SEEMS TO INDICATE ROUGHLY 545 MILLION DOLLAR LEVEL. (LE

840 MILLION MINUS OFFICIAL AND SHORT TERM AT LE 627 MILLION.) FIGURES GIVEN POATS EARLIER THIS YEAR INDICATED 640 MILLION DOLLARS M AND L AND SUPPLIERS CREDITS REPAYMENTS DUE WHILE IBRD/AID USING 700 MILLION DOLLARS. FINALLY, LATEST IMF PROJECTIONS SHOW 102 MILLION DOLLARS IN REPAYMENTS OF ARREARAGES IN BANK CREDITS.

4. L/C INITIATION OF 300 MILLION IS FOR LETTER OF CREDIT INITIATION AND IS ONLY ROUGH ESTIMATE USING ABOUT 5 PERCENT OF IMPORTS AS A GUIDE. IMF, WORKING ON A CB PAYMENTS BASIS, IGNORES THIS FOREIGN EXCHANGE REQUIREMENT.

5. RE SHORT TERM DEBT, DICKEY ESTIMATE, PARA 9 REFTEL C, OF 800 MILLION DOLLARS ADDITIONAL FINANCING REQUIRED THROUGH END OF THIS YEAR IS CLOSE TO ESTIMATED UNCOVERED DEFICIT OF 853 MILLION DOLLARS IN IMF BRIEFING FOR DONOR COUNTRIES. (WE ASSUME THIS LATEST DICKEY ESTIMATE BASED ON ASSUMPTION RECEIPT OF ADDITIONAL FUNDS FROM OTHER DONORS OR DRAWDOWNS ON SOME PREVIOUS COMMITMENTS.) HOWEVER, 853 MILLION DOLLARS WAS BASED ON B/P PROJECTION INCLUDING 512 MILLION DOLLARS NET REPAYMENT ON SHORT TERM COMMERCIAL BANK CREDITS AND 102 MILLION DOLLAR REPAYMENT IN ARREARS ON BANK CREDITS AND 76 MILLION DOLLAR BUILD-UP IN GOE FOREIGN EXCHANGE RESERVES. REFTEL C STATES THAT CURRENT ESTIMATE IS BASED ON EGYPT'S MAINTAINING PRESENT ARREARAGES AND DOES NOT SPECIFY ASSUMPTIONS RE RESERVE  
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BUILD-UP OR REPAYMENT OF SHORT TERM BANK CREDITS, WHICH EMBASSY IN PARA 4 REFTEL A EXPECTS TO INCREASE RATHER THAN BE REPAID IN 1976. EMBASSY REQUESTED TO CLARIFY ASSUMPTIONS UNDERLYING PRESENT DICKEY ESTIMATE AND BASIS FOR CHANGES, IF ANY, FROM EARLIER ESTIMATES. WHAT IS BASIS FOR EMBASSY'S ESTIMATE OF DOUBLING OF SHORT TERM DEBT BURDEN IN 1977? DOES EMBASSY ASSUME PRESENT UNCOVERED DEFICIT WILL BE MET BY INCREASED SHORT TERM BORROWING?

6. RE INFLOWS WE ARE NOT SURE OF ASSUMPTIONS BEING MADE BY IMF AND EGYPTIANS. WE ESTIMATE ARAB INFLOWS INCLUDE 725 MILLION MADE EARLIER THIS YEAR AS WELL AS APPROXIMATELY 200 MILLION DOLLARS KHARTOUM PAYMENTS (IMF CARRIES KHARTOUM PAYMENTS OF 160 MILLION DOLLARS DUE TO DECREASED VALUE BRITISH POUND), AND ABOUT 75 MILLION DOLLAR DRAW-

DOWN SAUDI/KUWAITI PROJECT FUNDS. WE ESTIMATE DRAWDOWNS ON US ECONOMIC ASSISTANCE AT 500 MILLION DOLLARS AND WE INCLUDE 100 MILLION DOLLARS IMF CREDIT. IMF-B INCLUDES 280 MILLION DOLLARS OF IMF CREDIT INFLOWS, ONLY 100 MILLION DOLLARS OF WHICH ACTUALLY RELEASED THUS FAR.

7. IMF LATEST ESTIMATE ON INFLOWS ALSO SHOWS 576 MILLION DOLLARS IN NEW WESTERN MEDIUM AND LONG TERM LOANS WHICH

DO INCLUDE SOME US AID AND ARAB DRAWDOWNS. THEY ALSO SHOW 448 MILLION DOLLARS IN NEW SUPPLIERS CREDITS.

8. IN SUMMARY, THE SIZE OF THE GAP IS QUESTIONABLE AND DIVERGENCE AMONG PROJECTIONS IS TOO GREAT TO PERMIT DETAILED CONSULTATION WITH DONORS ON GOE'S EMERGENCY AID REQUIREMENTS. WE NEED AGREED FOREIGN EXCHANGE GAP ESTIMATE BASED ON CURRENT IMPORT DEMAND FACTORS, NO NET REDUCTION IN COMMERCIAL BANK DEBT, AND REASONABLE MARGIN FOR L/C UTILIZATION.

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